A billion dollars in ads later, Election Day ushered in a House, Senate and White House that look a whole lot like they did for the past two years.

The marquee feature of that Washington: standoff.

In the span of a year and a half, lawmakers sent the country spiraling toward default, watched as the nation’s credit rating was dinged and even came to the brink of a government shutdown.

The best they could do: punt serious spending and tax questions until after the election.

But despite the same balance of power, there’s some reason to believe that 2013 won’t be just another do-nothing year.

In some cases, Washington will have no choice but to act — or face dire spending cuts and tax hikes under the fiscal cliff.

In other instances, an emerging consensus among Democrats, business leaders and some Republicans could lead to a deal — making it difficult for conservatives to block all revenue increases.

And even inaction could create new policy implications for government entities like Fannie Mae and Freddie Mac.

Taken together, the state of Washington has left POLITICO Pro reporters preparing for a busy year. Here are the top areas they believe are most likely to see action — and why.

DEFENSE
PERSONNEL COSTS, BASE CLOSINGS

The top defense challenges for the 113th Congress may sound quite familiar, but that doesn’t mean they’ll be any easier to deal with.

With thousands of personnel set to leave the military now that the war in Iraq is over and a withdrawal timetable set for Afghanistan, what’s to become of the vacant installations they leave behind?

And with the costs to pay and care for the people who stay on active duty growing so fast that they could swallow the rest of the Pentagon’s budget, will Congress go along with another bid to get them under control?

The new year will find the defense establishment on the downward slope of a sine wave. Once the prince of Washington’s interest groups during the height of the wars in Iraq and Afghanistan, it was reduced to the ignoble status of star hostage in 2011 and

2012, caught between anti-spending Republicans and pro-tax Democrats in their larger war over automatic budget cuts and tax increases.

Whether or not that dilemma is resolved before the new Congress is seated in January, the Pentagon must at the very least continue to live with the $487 billion in reduced budget growth mandated by the 2011 Budget Control Act. That means about 100,000 fewer soldiers and Marines, fewer Air Force warplanes and cargo aircraft, fewer Navy warships and a smaller presence around the world.

What could be done

Defense Secretary Leon Panetta says it’s all manageable — if he can execute his current strategy without having to worry about a funding roller coaster.

“One of the questions that I’ve consistently been asked is how the U.S. military is going to be able to project power and to maintain presence in a global world in an era of declining resources,” he said. “We believe that the new defense strategy that we put in place, plus the budget that we have sent up to the Congress, is designed to allow us to accomplish that goal.”

That will go double for the fiscal 2014 budget, which is expected to continue the military’s “build-down.” And Panetta says he worries about keeping a stable environment that will enable him to at least know how much money he has to work with.

“We’re developing a 2014 budget that, to some extent, is not based on what Congress has done, because they haven’t done it. We don’t know what the 2013 budget is going to be,” he explained. “I’ve got a six-month [continuing resolution] on the 2013 budget. So I don’t know — what am I going to get for 2013, much less what is Congress going to provide for 2014? This is a strategic issue — what kind of stability am I going to have in terms of defense spending for the future?”

Why it probably won’t happen soon

Whatever the outcome, Panetta’s budget focus could again prompt him to broach two politically radioactive but no less urgent issues in the spending request he sends Congress early next year: personnel costs and the Base Realignment and Closure process.

A Congressional Budget Office study in November was the latest warning sign about military personnel costs, pointing out that compensation for troops has grown faster than wages for comparable workers in the private sector and that the share of the defense budget spent on health care also continues to balloon.

Military health care benefits are available to almost 10 million people: “active-duty military personnel and their eligible family members, retired military personnel and their eligible family members, survivors of service members who died while on active duty and certain members of the reserves and National Guard," the CBO said.

In short, Congress faces a debate over spending and entitlements inside its larger debate over spending and entitlements. If lawmakers are as reluctant next year to curtail troop pay and increase military health care costs as they have been in the past — and the Pentagon must continue to absorb reductions in how much its budget can grow — Defense Department budgeters could have another challenging year making their numbers work. Likewise if Congress tried to halt the planned drawdown.

"If the Budget Control Act remained in effect and we were tasked to find $487 billion over 10 years, and if we couldn't touch manpower to do it, is that the question?" asked Gen. Martin Dempsey, chairman of the Joint Chiefs of Staff. "We would hollow out the force because we couldn't touch manpower. It's very difficult, and it's timely — it takes a long time to touch infrastructure. That leaves operations, maintenance, training and modernization."

Hence the planned drawdown. But fewer troops means a need for fewer bases around the U.S., an acknowledgement the Pentagon made in its fiscal 2013 request for two rounds of BRAC. That suggestion didn't last long, but Panetta said later it is one

Washington can't put off forever.

"It's an important debate that we have to have, and frankly, it's not going away," he said.

"If I'm taking the force structure down and then maintaining large infrastructure costs, then the money that ought to be going for training, for assistance, for help, for our soldiers is going to maintain the infrastructure," he added. "But I have no illusions here. … It's not easy politically."

ENERGY/ENVIRONMENT
CLIMATE CHANGE

President Barack Obama's reelection and Hurricane Sandy are giving environmentalists hope that 2013 is the year Congress finally tackles climate change — even if any legislation would face a steep uphill climb.

The devastating storm, on top of widespread drought across the U.S. and last year's East Coast strike by Hurricane Irene, are unmistakable signs of trouble to come unless the world reins in its greenhouse gas emissions, activists and scientists say.

On top of that, climate policy was a clear difference during the campaign between the president and Mitt Romney, who drew laughter at the Republican National Convention by mockingly saying that Obama had promised in 2008 "to slow the rise of the oceans." Obama responded a week later with a clear statement: "Climate change is not a hoax."

So this could be an ideal time to do something about it, in the view of advocates.

What Congress and the president could do

A slew of possible scenarios could play out next year and in the rest of Obama's term.

In the short run, even some Republican economists are endorsing a carbon tax that would provide an incentive to reduce greenhouse gas emissions — in a much more straightforward manner than the cap-and-trade system that failed to pass the Senate in

Obama's first term. One proposal, a "tax swap" being pushed by former Rep. Bob Inglis (R-S.C.), would use revenue from a carbon tax to offset cuts in other taxes.

Even without climate legislation, Congress could find common ground on several energy-related measures that would have the side effect of reducing greenhouse gas emissions. They include proposals to increase the energy efficiency of buildings and invest in renewable energy.

Democrats and Republicans alike have expressed optimism that Sen. Ron Wyden (D-Ore.), the incoming chairman of the Senate Energy and Natural Resources Committee, can manage to make progress on bipartisan energy legislation. He’s brokered deals with Republicans in the past, including a Medicare reform proposal he authored with House Budget Committee Chairman Paul Ryan (R-Wis.).

But the main action on climate change will most likely happen in the executive branch. For example, greens hope the Environmental Protection Agency will soon finish proposed greenhouse gas regulations for new power plants and then propose similar limits on existing plants. The latter step would significantly reduce emissions from coal-fired power.

Why it might not happen

A string of brutal defeats in recent years has taught the environmental community that nothing’s guaranteed.

In particular, the carbon tax idea has drawn attacks from conservative groups and key lawmakers. In November, House Speaker John Boehner’s spokesman denounced it as a “national energy tax that will raise energy prices and cost jobs.” The White

House soon followed with statements that Obama was not proposing a carbon tax either.

More broadly, Obama used his first post-election news conference in November to make the point that the climate is not at the top of his second-term agenda. While policymakers have an “obligation” to do something about climate change, Obama said, he underscored the political hurdles in Congress and said he’ll first focus on the economy.

“I think the American people right now have been so focused and will continue to be focused on our economy, jobs and growth that if the message is somehow that we’re going to ignore jobs and growth simply to address climate change, I don’t think anybody’s going to go for that. I won't go for that," Obama said.

Some green groups praised Obama for recognizing the threat of climate change. But many others were let down.

"His comments were pretty disappointing, to be honest," Sierra Club Executive Director Michael Brune told POLITICO. "We need the president to lead on climate change and to lead strongly."

Still, Brune sees reasons for hope. He said he and other leaders from major environmental groups will work to build on their unprecedented coordination before the election, in which they pooled their resources to help get environmentally friendly candidates elected to Congress.

In particular, Brune said he looks for incoming senators like Democrats Martin Heinrich of New Mexico, Elizabeth Warren of Massachusetts and Tammy Baldwin of Wisconsin to be "outspoken and eloquent advocates for climate action."

And he pointed to the Hurricane Sandy factor.

"I do think Sandy is a painful reminder of the consequences of inaction, and a lot of people on the Hill and in the White House will be forced to address it in some way," Brune said.

FINANCE
HOUSING CRISIS

More than four years after the government took control of mortgage finance giants Fannie Mae and Freddie Mac, there remains no plan to replace them.

The wait could continue.

Housing was not a major part of the presidential campaign and with home prices rebounding and the number of foreclosures dropping, there is less political pressure on President Barack Obama and Republicans in Congress to act.

At the same time, neither party contends the current system of having Fannie and Freddie essentially run by the government is sustainable.

Since being taken over in September 2008, the government has pumped $188 billion in taxpayer funds into Fannie and Freddie to keep them afloat while they finance roughly 60 percent of all home loans. Fannie has taken $116.1 billion in taxpayer funds and paid back $28.5 billion while Freddie received $71.3 billion and returned $21.9 billion.

The question remains: What will cause the White House and Congress to believe that now is the time to move legislation dealing with the difficult issue, from a political and policy standpoint, of changing how homes in the United States are financed?

House Republicans for two years have been calling on the Obama administration to make a formal proposal outside of a white paper the Treasury Department released in February 2011 that described three possible outcomes.

Despite their criticism of the president for not making a firm proposal, House leaders have made no effort to move a plan of their own.

“I think the larger issue is if you really want to pursue [government-sponsored enterprise] housing reform, you have to know what you’re going to replace them with,” said Christopher Wolfe, an analyst at Fitch Ratings. “Until they’re in some agreement, the status quo will continue.”

While policymakers wait, the financial state of Fannie and Freddie has been steadily improving.

Home prices are rising, buoying the value of mortgage-backed securities both companies' investment arms hold. This, in turn, is boosting their earnings.

Fannie and Freddie have earned a profit in each quarter for 2012 and pulled only $19 million from the Treasury this year, which went to Freddie at the end of the first quarter.

What could be done

The likely leader of the House Financial Services Committee, Rep. Jeb Hensarling (R-Texas), has led the charge to privatize the GSEs and erase what is now an explicit government guarantee of the mortgage bonds they issue.

If Hensarling decides to push legislation, regardless of concerns from party leadership, then housing finance reform would get a spot on the agenda. A move by the House GOP would also likely force the White House to be more specific about its policyprescriptions.

The conservatives' version of a future finance system stands little chance of making it into law, given the unusual pairing of homeowner advocates and mortgage industry groups aligned in opposition to it. They will lobby to keep some sort of a government guarantee — either through similar entities designed like Fannie and Freddie or through a catastrophic fund financed by either the government or the lenders who will sell these loans to whatever replaces the GSEs.

But there are already some proposals out there that could be a starting point for compromise.

Reps. Gary Peters (D-Mich.) and **John Campbell (R-Calif.)** have proposed winding down the GSEs and replacing them with private companies that can buy an explicit government guarantee for the mortgage-backed securities they issue, similar to Federal

Deposit Insurance Corp. protection for banks.

Other options are coming from outside the Hill. Jim Millstein, the former architect of the American International Group rescue at the Treasury Department, has caught recent attention with his plan to restructure the GSEs and build in a government backstopfor future mortgage bonds, not the entities themselves.

Why it won't happen soon

Housing is no longer high on Washington's agenda and is unlikely to rise so long as the market continues to improve.

For now, what to do about tax policy and the debt are the top priorities for the White House and Congress, and it will be difficult for any other large issue to get the time and attention it needs.

The reluctance to do anything that could affect the housing market can be seen in the widespread concern about various proposals from banking regulators over the past two years.

The 2010 Dodd-Frank law required banking agencies, including the new Consumer Financial Protection Bureau, to write rules intended to prevent borrowers from getting loans for homes they can't afford.

Lenders and housing advocates have said they support the idea behind these rules but have lobbied heavily to ensure they are as permissive as possible.

Banking regulators, for instance, have yet to finalize a proposed rule released in March 2011 that would require lenders to hold onto part of a loan they originate and then sell to investors. The idea is that this will give lenders some “skin in the game” and not allow them to pass all the risk to the secondary market.

The rule allows for an exception for loans that meet certain underwriting standards that are meant to define a safe loan. But lawmakers, banks and consumer groups have harshly criticized the standards as too narrow and contend that if finalized, the amount of borrowers who could get loans would plummet.

The issues raised by some of the Dodd-Frank rules pale in comparison to the challenges posed by overhauling the entire housing finance system.

HEALTH CARE
'DOC FIX'

Congress faces the same question every December: Will it finally fix the flawed Medicare formula that threatens to massively slash doctors' payments whenever a new year rolls around?

So far, the answer has always been "no," and 2013 isn't likely to be any different.

Known as the Sustainable Growth Rate, the formula has led to a miniversion of the fiscal cliff every year since 2003, when Congress began overriding it to avoid dramatic payment cuts from hitting doctors who care for seniors.

When lawmakers originally created and passed the SGR in 1997, they thought it would keep Medicare physician spending in check by tying it to inflation, along with a few other factors such as Medicare enrollment and gross domestic product growth per capita. The formula blocks physician payments from increasing by more than 3 percentage points above the previous year's inflation rate.

At the time, no one suspected that the SGR would eventually result in the dramatic payment cuts Congress is wrestling with now. Physician spending at the time was growing steadily but not at a breakneck pace, allowing the formula to work as lawmakers intended for the first couple years.

Things started to head south in 2001, when for the first time doctors claimed more reimbursements than the SGR allowed. Congress sat back and allowed the formula to run its course that first year, letting payments drop by 4.8 percent as scheduled.

But lawmakers have averted larger and larger cuts every year since, and the problem has just gotten worse and worse.

Every time they have put off, shrunk or canceled pay cuts, lawmakers have just dug themselves into a deeper hole, since the formula works on a cumulative basis. In 2007, doctors would have seen their payments cut by 10.1 percent without a “doc fix.”

That amount had risen to 21.3 percent by 2010. At the end of this year, payments could plummet 27 percent if Congress doesn’t find another temporary patch.

In the first few years of doc fixes, lawmakers made an effort to keep the hole filled, setting up a schedule to offset the extra spending by reducing payment rates in subsequent years.

But as budgetary pressures mounted, lawmakers kept pushing off the cuts and paying just enough to sidestep them for one year — a strategy that amounted to putting plywood over the hole but not filling it.

Why it could happen soon

Lawmakers say they’d like to solve the SGR once and for all. They’re tired of going through the cliffhangers year after year in which they always head off devastating payment cuts at the last minute — only to set up another cliffhanger down the road.

Last year, Congress kept doctors nervous up to the last minute, managing to pass a one-year fix just days before Christmas as part of a larger deal to extend payroll tax cuts. And sometimes, they haven't even been able to achieve fixes for a whole year, instead passing shorter-term six-month deals.

Both Democrats and Republicans agree that the cuts would be disastrous for doctors and, subsequently, seniors if they ever went through — a rare point of consensus in a time when the parties are severely divided over how to reform Medicare.

Lawmakers from both parties have proposed permanent solutions to SGR, including Pennsylvania Reps. Joe Pitts, a Republican, and Allyson Schwartz, a Democrat.

“That could be a good thing if they deal with this once and for all,” Pitts told POLITICO. “If they kick the can down the road and just solve the fiscal problem for a year or less, then it will come back again and you know, we jerk the doctors around enough.”

Rep. Sander Levin, a Michigan Democrat and the ranking member of the Ways and Means Committee, said he thinks the SGR should be negotiated with the rest of the budget, saying it's “part and parcel” to the rest of federal spending.

“I think it's preferable to face up to the entire set of issues rather than taking them piece by piece,” he said. “You can't do things for a couple months.”

Why it won't happen soon

Every year, lawmakers use apocalyptic terms to describe the prospective cuts and urge one another to come up with a permanent fix. But every year, they fail.

That's largely because the money keeps getting in the way. After more than five years, the hole is so deep that it's nearly impossible for Congress to agree on enough money to permanently fix the problem.

While a one-year doc fix carries a $25 billion price tag, the Congressional Budget Office said recently that eliminating the SGR altogether and filling that hole over 10 years would cost $245 billion — a hefty sum, even for the federal government.

Lawmakers almost uniformly agree that they'll end up with another temporary fix this year, acknowledging that fiscal cliff negotiations will supersede any efforts to solve the SGR dilemma. And there's a sense that things are out of their hands, anyway.

“Unfortunately, it's probably all gonna be lumped together because they're negotiating so many different things,” Pitts said.

TAXES
CORPORATE TAX RATES

It's one of the few things Barack Obama, Mitt Romney and John Boehner would agree on: Corporate tax rates in the U.S. are off the charts.

That kind of consensus is rare in tax land, where Democrats and Republicans are more often at loggerheads over what to do with everything from individual tax rates to the estate tax and levies on investments.

As Congress faces down some of the toughest fiscal policy decisions in recent memory, corporate tax reform is seen as almost a given — thanks in no small part to an avalanche of business lobbying over the past few years.

The concept of a lower corporate rate may get broad support, but the real challenge will be motivating lawmakers to agree on how to get there.

More likely than not, that debate will play out in a tax overhaul process in 2013, particularly if lawmakers and Obama are able to strike a fiscal cliff deficit-reduction deal.

Why it could happen soon

Traditional business powerhouses like the U.S. Chamber of Commerce and the Business Roundtable banded together with new groups like the rate-lowering, base-broadening RATE Coalition to make corporate reform a bipartisan clarion call.

“We had one mission: Get the ‘highest corporate rate in the world’ point across, get consensus on the lower corporate rate across,” said RATE Coalition Co-chair James Pinkerton. “I think we’ve gotten the issue to the point where nobody can say that they’re taking a hard and effective look on competitiveness and ignore corporate taxation.”

It’s become something of a mantra for backers of a corporate Tax Code overhaul: The United States has the highest corporate tax rate in the world at 35 percent.

But it’s also more complicated: Other countries like Japan have value-added taxes that push overall corporate levies higher than those in the U.S. And not every company pays the 35 percent rate. Many large firms can take advantage of deductions and credits that push their effective tax rates down to the mid-20s.

Still, the argument was so persuasive that both Democrats and Republicans included a commitment to lower corporate rates in their official party platforms.

House Ways and Means Committee Chairman Dave Camp (R-Mich.) wants to lower rates to 25 percent.

Obama has proposed cutting rates to 28 percent for most firms and 25 percent for manufacturers — a move corporate leaders see as a potential signal that their often icy relationship with the president may be starting to thaw.

“Not a word got in that platform that the White House didn’t want,” Pinkerton said. “I have total confidence.”

Why it might not happen soon

For all the unity, rewriting the Tax Code is an inherently heavy lift, with lots of viewpoints.

One problem is finding a way to cut the rate. Earlier this year, an estimate from the Joint Committee on Taxation, commissioned by House Democrats, found that eliminating every corporate benefit and expenditure would bring the rate only down to 28 percent.

The study didn’t consider all potential revenue streams, such as eliminating the interest deduction, that could reduce rates further. But touching those types of provisions in the Tax Code would spark an immediate fight with powerful industries like the banking sector, which rely on their ability to deduct interest as part of their business model.

There also will be plenty of disagreement over how income earned abroad by corporations should be taxed. Camp has proposed a system in which multinational corporations are largely shielded from paying taxes on income generated in other countries.

Democrats are largely opposed to that approach and Obama has said corporations should pay at least some taxes on offshore profits.

Plus, while both parties say the corporate code should be overhauled on a revenue-neutral basis, each percentage point cut to the corporate tax rate costs somewhere between $100 billion and $120 billion over 10 years.

And no one has offered a clear path to covering those costs. The revenue-raisers that Democrats often tout come up short. Striking the break for carried interest income paid to private-equity managers nets $31 billion. Ending preferences for corporate jets generates $3 billion.

Many business leaders say the best hope for resolving the revenue shortfalls in a corporate rewrite is a comprehensive overhaul of the entire Tax Code. A ground-up rewrite would give budget-crunchers more room to tinker. Revenue losses on the corporate side could be offset with deduction limits and changes to the individual code.

That possibility has many advocates of corporate reform retreating from any demands for a corporate-only approach.

Bruce Josten, the head lobbyist for the U.S. Chamber of Commerce, said that any attempt to divorce a corporate rewrite from the rest of the Tax Code would create an even more complex, less efficient Tax Code. Singling out the corporate code would make it even more difficult for small businesses that file as “pass through” businesses in the individual code.

“You can’t get lower than a 28 percent rate if you eliminate all of [the] tax expenditures [identified by Democrats],” Josten said. “So by definition, it can’t possibly be revenue neutral. It is mathematically impossible. The Chamber is for comprehensive reform.”

TECH
ONLINE PRIVACY

Pushing online privacy rights legislation through Congress has been no easy task, as years of inaction demonstrate, but the 113th Congress faces a pressing question: Are we at a tipping point?

Increased public awareness about a burgeoning digital data industry — one that can pinpoint your location for mobile ads, target political messages to you based on gender and/or track anonymous emails to a philandering general — may prompt lawmakers to tackle the hard questions.

The European Union already has taken a look at the balance between consumer privacy and the economic benefits of a data-driven economy and chosen better protection for consumers. Many privacy advocates in the U.S. say it’s about time Congress follows suit. But whether Washington chooses legislation or merely continues its push for industry self-regulation remains to be seen.

“I think that there is a rising tide of concern about the invasion of privacy in America,” Rep. Ed Markey (D-Mass.) said. “Privacy is not a partisan issue. When a liberal from Massachusetts, Ed Markey, and a conservative from Texas, Joe Barton, agree on something, you know that there is a basis for moving legislation forward. We are going to partner and continue to build our coalition.”

Advocates, too, are optimistic because they expect media attention to privacy invasions to increase as a political breaking point nears.

“There’s going to be greater public scrutiny on unfair and widespread data spying done by companies against [the] U.S. consumer,” said Jeffrey Chester, executive director of the Center for Digital Democracy. “That drumbeat of stories, exposés, complaints is going to continue.”

Privacy wasn’t a huge priority in the 112th Congress, but it wasn’t ignored either. Sens. Jay Rockefeller (D-W.Va.), Mark Pryor (D-Ark.) and Al Franken (D-Minn.) have all highlighted the issue, and most observers point to the coalition of Markey and Barton as perhaps the biggest privacy defenders on Capitol Hill. Those two have kept a close eye, for example, on practices used by data-collection companies and were among a group of lawmakers not satisfied with the amount of information companies divulged in letters sent earlier this year. Markey is also planning to introduce a bill early next year on privacy considerations for domestic drone aircraft.

What could be done

Privacy advocates are also eyeing a potential update to the Electronic Communications Privacy

Act, which governs when and how law enforcement can access emails stored online. The 26-year-old law, passed eons ago in the technology world, is desperately in need of an update, they say. Some point to the recent scandal involving email that led to the resignation of David Petraeus as CIA director after the digital train led — not to any crime — but to his philandering.

Sen. Patrick Leahy (D-Vt.) is pushing a measure that would attach ECPA reform to a different online privacy bill that passed the House in 2011. Any update to the statute cleared by the Senate is unlikely to come in the lame duck — and shouldn't, said Rep.

Bob Goodlatte (R-Va.), the House Judiciary lawmaker who sponsored the original bill that moved through the House — but could get another look in 2013.

"I think the prospects for this are pretty good, given that the issue has been debated for years now, and how it should be resolved is becoming increasingly clear," said Greg Nojeim, senior counsel CDT. "I think there will be some changes made to accommodate some concerns from some law-enforcement entities, but I do think the legislation is doable."

Why it probably won't happen

For its part, the White House proposed a consumer privacy bill of rights last February, but Congress hasn't made headway on turning those provisions into law. A White House spokesman didn't return a request for comment on whether the administration would push for legislation on that topic next year. The Federal Trade Commission also has pushed for legislation that would allow consumers to access information about them held by so-called data brokers, and FTC Chairman Jon Leibowitz said last month that if Internet stakeholders can't agree on Do Not Track standards, the agency will consider endorsing legislation on that issue as well.

Industry lobbyists have plenty of clout on the Hill, though, and advertisers — and lawmakers — are concerned that overregulation in the data space could have a serious and adverse effect on the economy.

“I think most members of Congress are concerned about doing anything that kills the economy,” said Linda Woolley, acting president and CEO of the Direct Marketing Association. “This segment of the economy is growing faster than other segments of the economy at a time when there’s not a lot in our economy that’s growing.”

To that end, it may still be an uphill climb for lawmakers who want to enact privacy legislation.

“At the end of the day, enacting any legislation on privacy — aside from ECPA with its strange bedfellow coalition of privacy groups and industry — is very, very difficult,” Chester said.

TRANSPORTATION
GAS TAX

Transportation stakeholders say infrastructure is on a downward spiral and point their fingers at an easy culprit: the gasoline tax, which has been stalled on the side of the road since 1993.

Revenues into the Highway Trust Fund, which is fueled mostly by a tax of 18.4 cents per gallon that has remained stagnant for almost 20 years, aren’t keeping up with spending demands. The signs of wear are obvious from highways to ports.

But the simplest fix of raising the gas tax is politically fraught. Without the political cover provided by inclusion in some massive financial deal such as the impending fiscal cliff, a gas tax hike may be such a heavy lift as to be impossible right now.

Traditional road-building lobbying groups — as well as those representing transit, labor, contractors, construction materials and states — support an increase. Even the U.S. Chamber of Commerce, which on most other issues traditionally takes an anti-tax stance, endorses raising the gas tax for infrastructure spending.

Despite the clamor for an increase during the administrations of former President George W.

Bush and President Barack Obama, suggestions that the gas tax rate should be increased have been summarily dismissed. In addition, both presidents actively worked against House Transportation and Infrastructure Committee chairmen from their own parties who sought a tax hike to fund more infrastructure spending. Under the Bush administration, that was Rep. Don Young (R-Alaska); with Obama, former

Rep. Jim Oberstar (D-Minn.) held the post.

And anti-tax positions, especially among Republicans, continued to harden earlier this year when fiscal conservatives in the House GOP demanded that infrastructure spending not exceed what the Highway Trust Fund can sustain. They also opposed further transfers from the Treasury to make up the difference. Republicans were willing to consider some additional spending but only if that spending was derived from nontax, deficit-neutral revenue raisers.

The result was a two-year, $109 billion just-barely-good-enough surface transportation bill that lawmakers still had to fight tooth and nail to push over the finish line.

According to a report produced in 2008 by the National Surface Transportation Policy and Revenue Study Commission, a blue-ribbon panel ordered up by the previous transportation law, the country needs to invest at least $225 billion each year from all sources just to bring the nation's infrastructure to a state of good repair. The report goes on to note that at the time the report was produced, the country was investing just 40 percent of that figure.

The silver lining on the devastation Hurricane Sandy wrought on the New York and New Jersey areas may be the way it highlighted just how dependent America's financial center is on transit. However, it remains to be seen how quickly pictures of flooded subways may fade from politicians' sights.

Just days after Obama was reelected, Pete Ruane, the president and CEO of the American Road & Transportation Builders Association, injected the gas tax issue into the Beltway discourse, hoping to put the need for greater investment in the front of lawmakers' minds as they begin negotiating a fiscal cliff deal.

Though he didn’t use the T-word, he implied Congress needs to take a hard look at increasing the gas tax, saying the discussion “begins with the establishment of a dedicated and sustainable transportation-related revenue source” that doesn’t “add to the deficit or detract from other government programs.”

What could be done

He suggested that Congress should use as a basis for discussion the conclusions reached by the Simpson-Bowles debt commission — which included a proposal to gradually raise the gas tax by 15 cents a gallon from 2013 to 2015.

The set of lawmakers that will be seated in January is the same group that will have to write a new surface transportation bill if they are to avoid the current law’s September 2014 expiration date. And despite Democratic gains in the Senate, the House’s

GOP caucus is expected to be more fiscally conservative than ever.

Signs of hope

There are some signs of hope for gas tax boosters, though. Republican Sens. Mike Enzi of Wyoming and Tom Coburn of Oklahoma have said they are open to at least indexing the gas tax to inflation, a position taken in the past by Sen. Barbara Boxer (D-Calif.), who serves as chairwoman of the Senate Environment and Public Works Committee.

The best hope for raising the gas tax or figuring out some other way to finance more robust infrastructure spending may be hitching a ride on whatever vehicle policymakers end up drafting to address the looming fiscal cliff. The two subjects would marry well together, considering that whatever package is produced will be intended to help get the nation’s fiscal house in order. Democrats are pressing for that to contain new revenues and spending reductions. It also would have the benefit of providing significant political cover to politicians from both parties wary about how a vote to raise the gas tax might be perceived.

But if lawmakers don’t decide to include some kind of fix for the Highway Trust Fund in whatever big fiscal deal is reached, the chances for enacting some big new revenue stream for infrastructure spending drop off precipitously. Though the jockeying has already begun with high hopes for a deal during the lame duck, the likely outcome at this juncture is that a massive debt deal will be kicked into next year, when the 113th Congress convenes.